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SIPDIS

SENSITIVE

DEPARTMENT PLEASE PASS USTR, ELENA BRYAN
STATE FOR EAP/BCLTV AND EB/TPP/ABT/BTT
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SUBJECT: OIL/GAS INDUSTRY DRIVING GROWTH OF BA RIA - VUNG TAU
PROVINCE

REF: 04 HCMC 1528

11. (SBU) SUMMARY: As the headquarters for Vietnam's oil and gas industry, Ba Ria-Vung Tau province reaps significant economic benefits in terms of taxes, investment and infrastructure, including power, ports, and roads. A 16 percent growth rate and USD 3 billion in total foreign direct investment reflect these advantages, and local leaders see the province as a primary location for Vietnam's heavy industry. However, Ba Ria-Vung Tau could be growing faster and seeing greater investment if local government was more transparent and proactive. END SUMMARY.

OIL/GAS DOMINATES PROVINCIAL ECONOMY

12. (U) Consul General, CommercialOff and EconOff visited Ba Ria-Vung Tau province March 23-25. They met with representatives of U.S. companies involved in Vietnam's oil/gas industry, including ConocoPhillips, Halliburton, Schlumberger, Baker Hughes and Global Santa Fe. The company reps noted Vietnam's oil and gas sector provided significant opportunity for U.S. companies, especially in the area of equipment and technology. In a meeting with VietSovPetro, a Vietnam-Russia joint venture that is the country's largest oil producer, the company's general director expressed strong interest in working with U.S. companies to improve VietSovPetro's operations, particularly in the area of directional drilling. VietSovPetro's production level has recently started to decline, and it needs to turn to advanced recovery technologies, particularly from the United States, to exploit remaining oil and gas reserves.

POWER SECTOR BOOMING, BUT SUPPLY STILL LAGS BEHIND DEMAND

13. (U) The six power plants located in Ba Ria-Vung Tau's Phu My power complex draw on nearby gas resources to provide half of Vietnam's electricity. The ConGen team visited Phu My 2.2, the nation's first independent power plant (IPP), operated by Mekong Energy Co., a build-own-operate-transfer (BOOT) joint venture involving Electricite de France International, Sumitomo Corporation (Japan), and Tokyo Electric Power Company International. Though French built and operated, the closed cycle plant is built around two General Electric gas turbines and a GE steam turbine. U.S. content represents 40 to 50 percent of the plant's USD 400 million. Phu My 2.2 alone provides 10 percent of Vietnam's electricity. The plant's general manager reported that while Vietnam requires 10 percent more power annually (equivalent to a new Phu My 2.2 plant each year), the GVN is responding to this need too slowly.

PROVINCIAL AUTHORITIES RELUCTANT TO SHARE INFORMATION

14. (SBU) While Ba Ria-Vung Tau clearly benefits from the success of the oil/gas industry, local leaders were vague on what proportion of oil/gas revenues accrue to the province and how its share of revenues is transferred. Provincial authorities were justifiably proud of Ba Ria-Vung Tau's economic performance. Excluding oil/gas revenue, per capita GDP is USD 1,675, three times the national average. The province has more than 112 foreign direct investment (FDI) projects with registered capital of USD 3.2 billion. However, local leaders were unable or unwilling to provide many details regarding plans to attract increased investment. The GVN plans to develop a large port to relieve pressure on Saigon Port and a rail link with neighboring Dong Nai province, but local leaders could not elaborate on these plans. A press interview and dinner with local business leaders and the chairman of the People's Committee were canceled at the last minute without explanation.

COMMENT

15. (SBU) Ba Ria-Vung Tau has taken its natural advantages - proximity to oil/gas resources and location as a port on the river leading to Ho Chi Minh City - and combined them with a well-developed power and road infrastructure. While the province has seen significant growth, there is still much room for development. For example, proven gas reserves in a ConocoPhillips yet to be developed offshore block could become the basis for greater power generation and other energy intensive and petrochemical based industry. Provincial leaders seem content to rest on their laurels and wait for opportunities to come to them. Their

attitude is in marked contrast to that of the leaders of Dong Nai and Binh Duong provinces. (reftel) All three provinces are part of Vietnam's Southern Economic Zone, but Dong Nai and Binh Duong leaders are promoting economic growth by proactively encouraging investment. Ba Ria-Vung Tau leaders, on the other hand, are letting the province's natural advantages do the work for them.

WINNICK